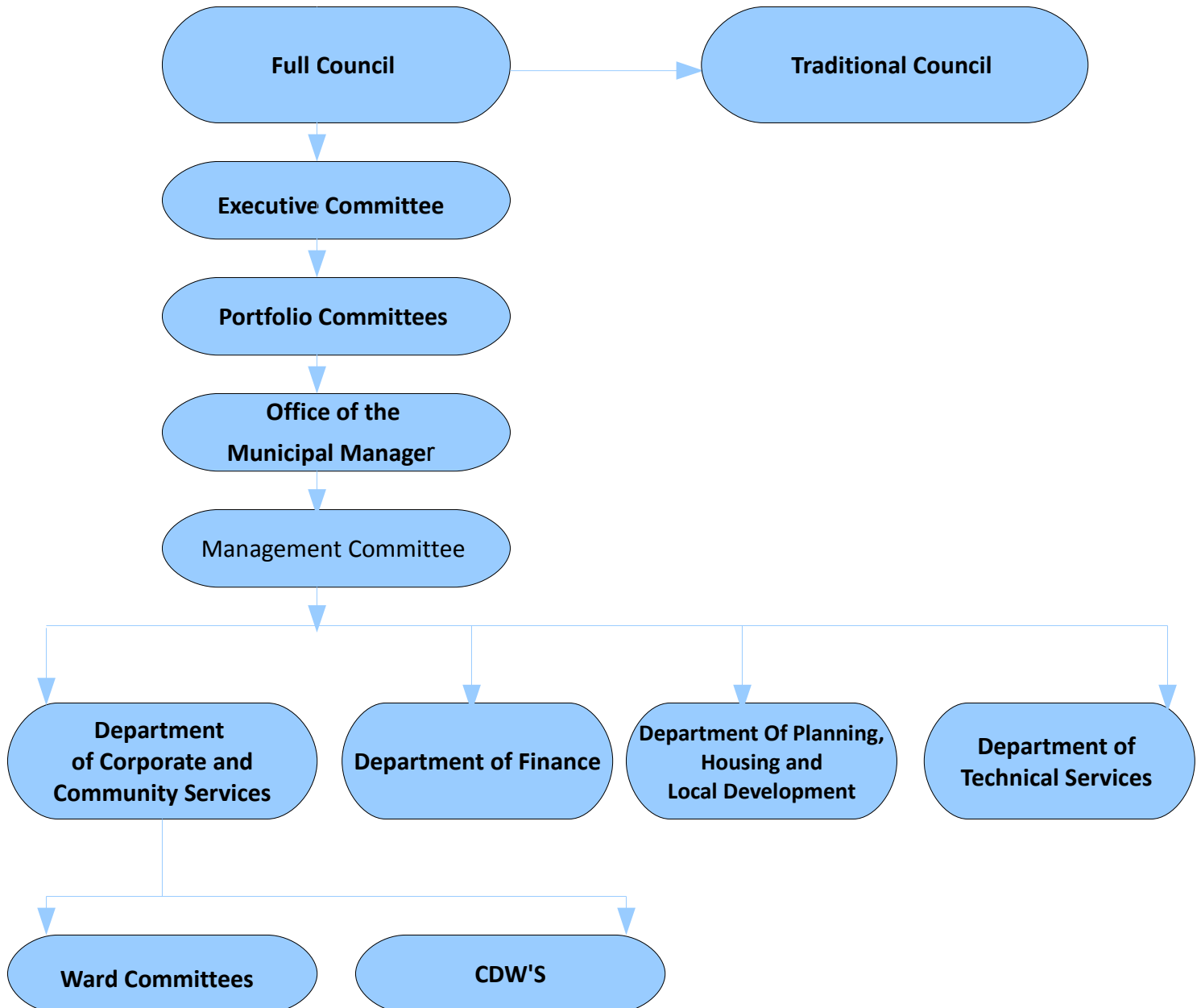


2. Municipal Institutional Summary

The diagram below shows the abridged framework for an institutional arrangement for Leadership and Administration in the Municipality.

2.1 Abridged Municipal Organogram



2.2 Municipal Governance

The municipality has a total number of **30 constitutionally** elected councillors representing their respective political parties in the municipal governance. The Municipal Governance is proportionally represented as follows:

IFP – 23;

ANC – 6; and

FEDCON -1

The Executive Committee (EXCO) is made up of six councillors including the Mayor, Deputy Mayor, Speaker (*ex-officio*), and four other EXCO members. Most of the EXCO members preside over specific Portfolio Committees, which ensures necessary strategic direction and active participation by all municipal councillors.

3. Municipal Administration composition

The current Nquthu Local Municipality administration comprises the Office of the Municipal Manager and four departments, namely:

Technical Services,

Financial Services,

Corporate & Community Services; and

Development Planning Housing & Economic Development Housing & Land Administration.

3.1 Staff Complement

The Nquthu Local Municipality has a total work force of **120 Staff** members being distributed among the four departments and Office of the MM. It must however be mentioned that, further information on the municipal administration is being covered in more details as part of the institutional programme which is included as a specific section in the IDP. The number of the staff is highlighted as per department in a table below:

3.2 TABLE: Municipal Staff Component

Department	Staff Component
Office of the Municipal Manager	3
Department of Planning, Local Economic Development, Housing and Land Administration	5
Department of Corporate and Community Services	22
Department of Finance	15
Department of Technical Services	77
Total	120

4. Performance Reports For Municipal Departments

Nquthu Municipality is operating with four functional departments in order to accomplish its constitutional mandate, powers and functions, in terms of Section 152, 153, Chapter 4 and 5 B of the Constitution of the Republic, Act Number 108 of 1996. This chapter is intending to outline the functions as per department and the performance in each department in the financial year 2008-09.

4.1 Department of Finance Services

THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2009 FOR THE BUDGET AND TREASURY OFFICE

Introduction

The Budget and Treasury Office is the department of the municipality that is established in terms chapter 9 of the Municipal Finance Management Act No. 56 of 2003.

The fundamental aim of this department is to implement MFMA and other prescripts that are related to proper financial management. We are guided by various circulars and guidelines issued by the National Treasury.

Targets during 2008/2009 financial year

The targets that we set for ourselves for the financial year were informed by the background and history that the municipality had with regard to financial management. That is the municipality got disclaimers for the past three consecutive financial years.

This meant each and every aspect of our department needed overhaul and drastic measures would have to be implemented to bring the situation to normal. This is always a challenge considering that in any organisation change is resented and during change if there is no proper change management the change that is being brought will fail.

As such we had to look at the basics that we must ensure we cannot survive without.

Staff motivation;

Establishment of the BTO;

Implement control measures and

Develop policies.

With limited resources at hand we knew that most of our ambitions will not be possible during this financial year. As such we concluded that this is the year for getting basic right and putting the systems in place to ensure that we can be in a better place in 2009/2010.

These did not need to much financial resources but we needed to share knowledge and intellectual property with other municipalities and government departments.



Mr. W.S. Mpanza

Chief Financial Officer

In terms of the KPA's as per the IDP the following were the priority areas for the financial year.

Financial Management System	To establish an accurate and timeous billing system
Supply Chain Management	To make sure that there is a fair, transparent & cost effective way of acquiring goods & services.
Credit Control	To identify non-paying customers so that revenue can be correctly & timeous recognized To ensure timeous payments of creditors in order to avoid penalties
Valuation Roll	To formulate a single rates policy & compilation of valuation roll by end of 2009
Municipal Budget	Ensure proper management of municipal annual budget
Cash flow management	To monitor monthly cash flow of the various departments within the Municipality and report accordingly as per MFMA.
Asset Register	To monitor all municipal assets, allocation and their book value.
VAT Control	To comply with SARS regulations & to be re-imbursed for exempt income.
Budget Process	To enable the municipality to approve and implement a budget on time in terms of MFMA

Overview of sections within Budget and Treasury Office and their performance

Head: Budget and Treasury Office.

In terms of section 80(2) (a) the municipality must appoint the head of the BTO. The CFO was appointed on the 4th of July 2008. The main tasks were to drive the proper implementation of MFMA and ensuring compliance with other prescripts.

There is also a PA assigned to the CFO.

Expenditure control section

This section is headed by the Accountant Expenditure who reports directly to the CFO. Then there is a payroll officer and the creditors' clerk. This section is currently tasked with reporting of all the expenditure incurred by the municipality and submission of all the reports required by the MFMA and DORA.

Our expenditure for the financial year as reported in the CFO's report in the Annual Financial statements is as follows. *(Insert summaries as per CFO report).*

The following returns due as per MFMA and DORA were submitted before the due date. *(List of all the returns)*

Revenue section

The section is headed by the Income Accountant. Then we have a Senior Debtors clerk, Cashier and the meter reader. This section shall ensure that the income due to the municipality is collected and banked timely. They must also ensure that the bills for consumers are issued timely and queries there to are attended.

We were unfortunate to have our Accountant resigning at end of March and on May a new incumbent started.

Our main challenge was the billing problem that was prevailing in the municipality. The billing system was erratic and gave us problems such that we could not issue statements to the consumers and the caused payment level to be very low.

The summary of the amount owed to the municipality is *(attach part of CFO's report this to be in debt categories and type of debtors).*

We must write-off most of the monies as we do not see them being recovered. But those owned by businesses, municipal officials and councillors and state departments will not be written off. Also the electricity consumed by residents from conventional metres will not be written off.

We are gearing up now to fully enforce our credit control and debt collection policy in the new financial year. We have also update most of the consumer contact details through the drive that we initiated.

During this financial year we had to do ground work for the implementation of the Municipal Property Rates Act in 2009/2010 financial year. A municipal valuer was appointed and the valuation roll was presented in January 2009 and made available for public inspection and lodging of the objections. No objection was received from the public.

The council approved the property rates by-law and the property rates policy and these were published for public comment.

Supply chain Management

The section is responsible for the implementation of SCM procedures. It started with the SCM practitioner and the beginning of the financial year but in October we appointed the SCM manager.

Our main aim was to establish functioning bid committees and implement our SCM policy. We got Provincial Treasury to review our SCM policy. We have done 2 training sessions for the bid committees to ensure that they function properly.

The reports that are done monthly to council and Treasury were completed. (*Their number*).

In total for 2009 financial year we spent **(state amount spent through SCM for this year as opposed to last year)**.

A notice was published to call for the suppliers to register in our database during the year.

Municipal Finance Management Internship Programme

This is the programme funded by the National Treasury where we must employ graduates and give them training. Currently we have two interns appointed on a two year contract. In the new financial year the number of interns must be 5 in terms of DORA for 2009 and we will adhere to this.

Municipal Support Programme

Provincial Treasury supported the municipality in the recovery process by bringing in the experts to assist the finance department in introducing control and capacitating staff.

Finance Portfolio Committee

The portfolio is under the chairmanship of the Mayor and seeks to advise the Executive committee on the matters relating to finance.

Members of the committee: Cllr. FBH Mazibuko (Chairperson), Cllr. TM Ndlovu, Cllr. CN Mhlanga, Cllr. FI Mdlalose, Cllr. VHN Mdlalose.

During the financial year the committee had 8 meetings.



Asset Management

Previously there was asset register developed by Combined Systems, we only got to know this after we have called for the proposals for the service provider to develop the register. This register was not complete and some of the assets we could no longer verify.

We therefore proceeded with the appointment of Municipal Asset Management System (MAMS) to develop a new assets register as well as the asset management policy.

The second phase will be to dispose all the assets that are no longer worth holding in terms of the policy.

VAT Control

During 2008/2009 we submitted all the VAT returns due to SARS, it must be noted that these were however not submitted in time as we were still trying to get our records in order, and also agreeing with SARS on the apportionment basis.

We submit our VAT returns monthly and the basis we use is invoice.

Municipal Budget and process

A budget process plan to draft the budget for 2009/2010 financial year was submitted and approved by the Council. The budget for 2009/2010 was subsequently approved by the council.

During the financial year we have tried to issue monthly budget statements to the relevant committees, but our main shortfall was that we were doing all the accounting through spreadsheets and this delayed a turnaround time.

Policies in place

As indicated in a section above, this financial year we were mainly concentrating on putting our house in order in terms of the operating systems and internal controls. As such the following policies were reviewed and adopted in the financial year.

Interim SCM processes;

SCM policy;

Credit control and debt collection policy;

Property Rates policy;

Budget policy.

Financial Systems

We had a very major challenge with regard to the financial management system. The municipality has been using Munsoft as the financial system. The system had never been upgraded this lead to many errors. The information on the system could not be relied upon as such we had to look at available options for us. As this was causing endless problems for us and having a detrimental effect on our collection of debts.

In preparation of 2008/2009 financial statements Pastel was utilised. The bid for the new financial management system was advertised in June.

We are using VIP for payroll and we are able to integrate this to any financial system.

Appreciation

I would like to thank the municipality for placing their confidence in me to assist them in addressing the shortcomings that have been identified.

All the BTO staff for the support that they have given me in my first year of service. Their dedication has not gone unnoticed. The effort they have given really means a lot to me.

Furthermore the cohesion with other departments in ensuring that we are all accountable for our actions and spending is appreciated.

4.2 Department of Corporate and Community Services

1. OVERVIEW

The core function of Corporate and Community Services department is to maintain, develop and provide support to all departments within the municipality. It focuses on the entire municipality's administration, secretariat, human resources, development facilitation, Information Technology and disaster management. The Centers of information to create a quit resource centre for the promotion of reading, literacy and information. Provide the public, with reading material, visual aids and audio materials as requires and sport and recreation
It is with pleasure to present a report on the functioning of the Department in the 2008/2009 financial year.



Mr. X.M. Mbatha

Director of Corporate and Community Services

1. ADMINISTRATION

The administration section provides administrative support and guidance to all other sections within the municipality.

2. REGISTRY ARCHIVES

In order to continuously manage efficiently the municipality recognizes information and records as the most important resources. Most crucially, both internal and external Communication channels have improved through the services of a messenger.

3. HUMAN RESOURCE MANAGEMENT

Strategically manage the Municipal Human Capital of the entire organization of Nquthu

Municipality focusing on the following aspects:

Restructuring the Organization in terms of the needs and challenges Nquthu Municipality with its changing Integrated Development Plan.

Managing and monitoring the Labour Turnover of the Municipality.

Recruitment and Selection of staff, and training existing staff.

Human Resources Development which impacts on the Quality Service Delivery and Integrated Development Plan, and the Development of a Workplace Skills Plan and implementation thereof.

Study Assistance Programmes, and offering in-service training to aspiring trainees who have completed tertiary levels of education.

Policy Development and Implementation

3.1 Analysis of the function

The Corporate Services Department is the heartbeat of Nquthu Municipality within the context of Human Capital. Without a Healthy Labor Relations Environment, nothing will be achieved in terms of Improved Quality Service Delivery and the Integrated Development Plan. This is coupled with a well-trained and motivated staff who should deliver Quality Service to the entire Nquthu Municipality communities at large within the goals of the Integrated Development Plan. The Labour.

3.2 Labour Relations Management

To manage municipal labour relations between the employer and the employees for the purpose of providing effective and efficient services within the municipal area of jurisdiction, this encompasses the following:

- To promote mutual respect between employer and employee,

- To ensure that management and the employees share a common understanding of misconduct and discipline,

- Application of discipline in a prompt, fair, consistent and progressive manner,

- Prevent arbitrary actions by both management and labour organizations towards one another.

- Provide employer and employees with a quick and easy reference for the application of discipline;

- Ensuring that discipline is a corrective measure by conducting fair hearing in a formal or informal setting;

- Promote effective and efficient mechanisms to resolve grievances;

- Manage strikes to ensure that essential services are not interrupted during industrial actions;

- Co-ordination of consultative meetings with management and organized labour;

- Encourage the employer and Organised Labour to collectively bargain and comply with collective agreements;

- Familiarise employees with municipality's conditions of service (induction);

- Ensure that each and every employee has a job description as described by the Basic Conditions of Employment Act 75 of 1997;

- Design Labour Relations related policies for the purpose of controlling and monitoring.

3.3 Analysis of the function

One of the key functions of the Labour Relations Section is to conduct induction programmes to new and old employees within the municipality. Induction is an important to be used in a planned way to assist new employees to adapt to their job, their fellow employees and the organization as a whole.

It also helps them to be productive' and feel welcomed. The relationship between the employer and the employees is based on the terms and conditions of employment contract. It is vitally important that employees are also made aware of the provisions of Health and Safety related legislations.

3.4 Occupational Health and Safety

The Safety representatives will be trained Health and Safety as well as in First Aid, together, are scheduled to meet on a monthly basis to discuss Health and Safety issues in their work places. They also undertake site visits in areas which require more attention.

3.5 Total Staff Establishment for the year 2008/2009

The outcomes of the Department of Labour inspections proved our compliant with Employment Equity Act. Nquthu Municipality was faced with the challenge of creating an Equitable Workforce Profile as per the requirement of Employment Equity Act.

Employment Equity for 2008/2009 shows that top management is 100% African represented, no woman occupies a top management position. The total number is including the councilors.

Total Staff Establishment for the year 2008/2009

Race	Gender	2008/2009
African	Male	96
African	Female	57
Coloured	Male	0
Coloured	Female	0
Indian	Male	0
Indian	Female	0
White	Male	0
White	Female	0
Total	Male	96
Total	Female	57
Total employees		153

Personnel Expenditure 2008/2009

Employee related costs salaries	12,286,151.38
Employee related costs - contributions for UIF	112,306.72
Pensions	
Medical Aids	
Travel, motor car and other allowances	
Industrial Levy	
Housing beenefits and allowances	
Leave paid out	
Overtime payments	
Cell Allowance	
Bonus Payments	
Less: Councillor's Remuneration and allowances	
Total employee related costs	

PUBLISHED

ANNUAL FINANCIAL STATEMENTS

NQUTHU

LOCAL MUNICIPALITY

30 JUNE 2009



Nquthu Municipality
Municipal Offices
Private X 5521
Nquthu
3135

NQUTHU LOCAL MUNICIPALITY 2009

INDEX 2009

	<i>Page</i>
1 GENERAL INFORMATION	2
2 COUNCILLOR INFORMATION	3
3 FOREWORD	4
4 REPORT FROM THE AUDITOR-GENERAL	5
5 CHIEF FINANCIAL OFFICER'S REPORT	6
6 ACCOUNTING POLICIES	9
7 BALANCE SHEET	12
8 INCOME STATEMENT	13
9 CASH FLOW STATEMENT	14
10 NOTES TO THE FINANCIAL STATEMENTS	15
11 APPENDICES TO THE FINANCIAL STATEMENTS	
A - ACCUMULATED FUNDS, TRUST FUNDS, RESERVES & PROVISIONS	24
B - ANALYSIS OF FIXED ASSETS	25
C - ANALYSIS OF FIXED ASSETS BY DEPARTMENTAL AND SERVICE CLASSIFICATION	26
D - ANALYSIS OF OPERATING INCOME AND EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2009	27
E - DETAILED INCOME STATEMENT OF THE YEAR ENDED 30 JUNE 2009	28

GENERAL INFORMATION

MEMBERS OF THE EXECUTIVE COMMITTEE

Cllr. FBH Mazibuko
Cllr. NM Zungu
Cllr. Dlamini
Cllr. TG Ntshalintshali
Cllr. EN Molefe
Cllr. PM Ngobese

Mayor
Deputy Mayor

SPEAKER OF COUNCIL

Cllr. AM Mtshali

These members were elected as councillors on 3 March 2006 with the Local Government Elections.

GRADING OF LOCAL MUNICIPALITY

Grade 2

AUDITORS :

The Auditor-General
Private Bag X 9034
PIETERMARITZBURG
3200

BANKERS :

ABSA, SOUTH AFRICA

REGISTERED OFFICES

Municipal Building
83/11 Mdlalose Street
NQUTHU

Private Bag X 5521
NQUTHU
3135

Telephone: (034) 271 6100
Fax: (034) 271 6111

APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements set out on pages 2 to 24 were approved by the Municipal Manager on 29 August 2009 and submitted to Council in 31 August 2009 for approval.

Mr. BP Gumbi
Accounting Officer

Mr. WS Mpanza
CHIEF FINANCIAL OFFICER

COUNCILLOR INFORMATION

MEMBERS OF Nquthu LOCAL MUNICIPALITY

WARD COUNCILLORS

Cllr. FBH Mazibuko
Cllr. NM Zungu
Cllr. AM Mtshali
Cllr. TA Dlamini
Cllr. EN Molefe
Cllr. PM Ngobese
Cllr. TG Ntshalintshali
Cllr. ET Buthelezi
Cllr. SD Buthelezi
Cllr. SM Buthelezi
Cllr. NN Khanyile
Cllr. SM Kunene
Cllr. AM Langa
Cllr. RS Langa
Cllr. VHN Makhoba

PARTY REPRESENTATIVE

Cllr. SS Mdladla
Cllr. FI Mdlalose
Cllr. CN Mhlanga
Cllr. EM Mkhwanazi
Cllr. GJG Mncube
Cllr. BR Molefe
Cllr. JC Ndlovu
Cllr. RA Ndlovu
Cllr. S Ndlovu
Cllr. TM Ndlovu
Cllr. CS Ngobese (Passed away on 27 May 2009)
Cllr. TC Njoko
Cllr. VB Ntombela
Cllr. AB Zulu
Cllr. NP Zulu

All the above councillors were elected to the office on the 3rd of March 2006 and official resumed office on the 8th of March unless stated otherwise.

FOREWORD

The foreword will be done by the Mayor, and is to be included in the annual financial statements for the Nquthu Local Municipality.

**RAL ON THE FINANCIAL STATEMENTS
ITY FOR THE YEAR ENDED 30 JUNE 2009**

The report will be included once the audit is completed by the Office of the Auditor-General.

CHIEF FINANCIAL OFFICER'S REPORT

It is my privilege to present the 2009 Financial statements for the Nquthu Local Municipality

1. OPERATING RESULTS

Details of the operating results per department and classification of income and expenditure are included in appendices D and E. The overall operating results for the year ended 30 June 2009 are as follows:

INCOME	Actual 2008 R	Actual 2009 R	Variance 2008/2009 %	Budget 2009 R	Variance Actual / Budget %
Opening surplus	(3,113,620)	(2,162,956)			
Operating income for the year	27,107,837	39,033,172	30.55%	36,982,126	5.55%
Closing deficit	-	-			
	23,994,217	36,870,216		36,982,126	
EXPENDITURE					
Opening deficit	-	-			
Expenditure for the year	26,457,173	34,824,647	24.03%	36,982,126	5.83%
Prior year adjustment	(300,000)	(1,262,943)			
Closing surplus	(2,162,956)	3,308,511		-	
	23,994,217	36,870,216		36,982,126	

1.1 Rate and General Services

Rate Services

	Actual 2008 R	Actual 2009 R	Budget 2009 R	Variance Actual / Budget %
Income	25,810,975	35,269,821	29,560,218	19.32%
Expenditure	23,557,952	26,520,764	30,396,791	12.75%
Surplus / (Deficit)	2,253,023	8,749,056	(836,573)	
Surplus / (Deficit) as % of income	8.73%	24.81%	-2.83%	

1.2 Trading Services

Electricity

	Actual 2008 R	Actual 2009 R	Budget 2009 R	Variance Actual / Budget %
Income	1,296,862	3,763,351	7,421,908	-49.29%
Expenditure	2,899,221	8,303,883	6,585,335	26.10%
Surplus / (Deficit)	-1,602,359	-4,540,532	836,573	-642.75%
Surplus / (Deficit as % of income	-123.56%	-120.65%	11.27%	

2. CAPITAL EXPENDITURE

Detail of capital expenditure (budget and actual) per department and service are included in appendix B.

	2009 Actual R	2009 Budget R	2008 Actual R
Infrastructure (Building)	-	-	-
Infrastructure (Roads)	-	11,170,000	-
Vehicles	-	-	706,341
Furniture; Equipment; Machinery	19,994	735,000	-
Office Furniture	23,806	-	-
	43,800	11,905,000	706,341

Capital acquisition is financed as follows:

	2009 Actual R	2009 Budget R	2008 Actual R
Public Improvement Fund	-	-	-
Contributions from income	19,994	735,000	20,000
CDF - Internal advance	-	-	-
Grants	43,800	11,170,000	1,789,535
	63,794	11,905,000	1,809,535

3. EXTERNAL LOANS, INVESTMENTS AND CASH

No external loans were taken up by the municipality in the financial year.
No funds of the municipality were offered as surety in any way.

Investments and cash on hand is as follows:

	2009	2008
Investments	3,994,475	807,884
Cash in Bank	1,662,020	457,019
	<u>5,656,494</u>	<u>1,264,903</u>

4. FUNDS AND RESERVES

The balance in the Capital Development Fund is R 1,490,105 (R 1490,105 in 2008). See financial policies for reasons.

The Public Improvement Fund stands at R 15,451,894 (R 726,400 in 2008).

More information relating to funds and reserves are shown in notes 1 to the financial statements and in appendix A.

5. EXPRESSION OF APPRECIATION

I wish to thank the support staff of Ngquthu Local Municipality for the support they have given me in preparation of the 2009 financial statements.

Mr. WS Mpanza
CHIEF FINANCIAL OFFICER

ACCOUNTING POLICIES

1 BASIS OF PRESENTATION

- 1.1 These financial statements have been prepared so as to conform to the standards laid down by the Institute of Municipal Finance Officers in its Code of Accounting Practice (1997) and Report on Published Annual Financial Statements (Second edition - January 1996).
- 1.2 The financial statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy note 3. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.
- 1.3 The financial statements are prepared on the accrual basis as stated:
 - (i) Income is accrued when available to finance operations. Certain direct income is accrued when received and /or when the amount can be measured with certainty.
 - (ii) Expenditure is accrued in the year it is incurred.

2 CONSOLIDATION

The financial statements include all the expenses that have been incurred by the four departments of the municipality. Namely Executive and Council, Financial Services, Corporate Service, Technical Services and LED, Planning and Housing departments, there are no inter-departmental charges applicable.

3 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

4 FIXED ASSETS

- 4.1 *Fixed assets are stated:*
 - (i) at historical cost, or
 - (ii) at valuation (based on the market price at date of acquisition), where assets have been acquired by grant or donation,while they are in existence and fit for use, except in the case of bulk assets which are written off at the end of their estimated life as determined by the Head: Budget and Treasury Office.
- 4.2 *Depreciation*

The balance shown against the heading "Loans Redeemed and Other Capital Receipts" in the notes to the balance sheet is tantamount to a provision for depreciation, however, certain structural differences do exist. By way of this "Provision" assets are written down over their estimated useful life. Apart from advances from the various council funds, assets may also be acquired through:

 - (i) Appropriations from income, where the full cost of the asset forms an immediate and direct charge against the operating income, and therefore it is unnecessary to make any further provision for depreciation.
 - (ii) Grant or donation, where the amount representing the value of such grant or donation is immediately credited to the "Loans Redeemed and Other capital Receipts" account.
- 4.3 Net proceeds from the sale of all assets are credited to the Capital Development Fund to be available to finance future projects.

- 4.4 Fixed assets are financed from different sources, including external loans, operating income, endowments and internal advances. These loans and advances are repaid within the estimated lives of the assets acquired from such loans or advances. Interest is charged to the service concerned at the ruling interest rate applicable at the time that the advance is made.

5 FUNDS, RESERVES AND PROVISIONS

5.1 Capital Development Fund

The Local Government Ordinance, Natal, No. 25 of 1974, requires a minimum contribution of 3,0% of the defined income of a local authority for the immediately preceding financial year.

5.2 Public Improvement Fund

The Public Improvement Fund provides funding for future township development. All development costs as defined in section 103 (3)(d) of the Local Government Ordinance, Natal, No. 25 of 1974, are debited against the fund. All proceeds from the sale of developed land are credited as income for the fund.

5.3 Working Capital

Appropriations are made on an annual basis from accumulated surpluses to the reserves account.

5.4 Leave Stabilization Provision

The provision is based on the leaved accumulated as at the end of the financial year at full cost of employing the employee.

5.5 Bad Debt Provision

A provision equal to the anticipated risk as at 30 June annually is provided for. Contributions or reductions are debited and credited to the applicable accumulated funds accounts.

5.6 Housing Operating Account

In terms of Housing Act (Act 107 of 1997), the following has been implemented

5.6.1 Amounts owing in respect of Provincial Housing Bond Loans, which have been extinguished, have been reflected in the Housing Operating Account.

5.6.2 Fixed assets and housing debtors relating to these loans have been retained in the housing service.

5.6.3 All monies held in the Housing Operating Account not used, are invested with a public institution in accordance with the Housing Act. Interest received on such amounts invested is held for future housing development.

5.7 Reserves

Reserves were established for all conditional grants received from National and Provincial Government. These funds are specifically allocated to the purpose the grant was intended for and the expenditure debited against these reserves should be in accordance with the respective business plan.

6 RETIREMENT BENEFITS

Nquthu Local Municipality and its employees contribute to the Natal Joint Municipal Pension Fund or the KwaZulu-Natal Joint Municipal Provident Fund which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No. 24 of 1973) and in accordance with the requirements of the Pensions Fund Act, 1956.

Current contributions are charged against operating income on the basis of current service costs.

Full actuarial valuations are performed at least every three years.

7 INVENTORY

Stock is purchased on a need basis, and the balance on hand at year end is accounted for as expenditure.

8 SURPLUSES AND DEFICITS

Any surpluses or deficits arising from the operations of the Electricity Services are transferred to Rate and General Services. The Water- and Housing Services however, is a closed accounts and therefore any surplus or deficit is retained in that service for its own use.

9 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The cost of internal support services are transferred to the different services in accordance with the Institute Report on Accounting for Support Services (June 1990).

The re-allocation is annually approved with the budget, and there was no changes from the previous year.

10 INVESTMENTS

Investments are shown at the lower of cost or market value if a permanent decline in the value occurred, and the invested in securities as prescribed in chapter 3 of the Municipal Finance Management Act No. 56 of 2003 and as prescribed in Investments regulations for municipalities and municipal entities issued by the National Treasury.

11 INCOME RECOGNITION

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and recognised as revenue when invoiced. Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale.

Service charges relating to the refuse removals are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and levied monthly using a flat rate on each property, regardless of whether or not all containers are recognised at the point of sale.

Interest and rentals are recognised on a time proportion basis.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

11.1 Revenue from non-exchange transactions

Revenue from property rates is recognised when the legal entitlement to this revenue arises.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on the legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtual certain.

12 LEASE ASSETS

Fixed assets held under finance lease are capitalised. Such assets are effectively amortised over the term of that lease agreement.

Lease finance charges are allocated to the accounting periods over the duration of these lease, by the effective interest rate method, which reflects the extent and costs of lease finance utilised in each accounting period.

All other leases are treated as the operating leases and the relevant rentals are charged to the operating account in a systematic manner to the period of use of the concerned.

13 CONDITIONAL GRANTS

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

14 CASH AND CASH EQUIVALENT

Cash includes cash on hand and cash at bank. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change of value.

For the purpose of cash flow statement cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred.

15 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budget for, expenditure that is not in terms' of the conditions of allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where it is recovered it is subsequently accounted for as revenue in the Statement of Financial Performance.

16 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy (SCM). Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

17 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

18 COMPARATIVE INFORMATION

16.1 Current year comparatives

Budgeted amounts have been included in the financial statements for the current financial year only.

16.2 Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

19 BORROWING COSTS

Borrowing costs are recognised as an expense in the Statement of Financial Performance.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2009

	Note	2009 R	2008 R
FUNDS, RESERVES AND LIABILITIES			
FUNDS AND RESERVES		26,627,021	7,449,678
Accumulated Deficit		3,308,511	(2,162,955)
Statutory Funds	1	16,941,999	2,216,505
Reserves	2	6,376,511	7,396,128
NON-CURRENT LIABILITIES		4,181,073	5,250,568
Interest bearing borrowing		4,181,073	5,250,568
CURRENT LIABILITIES		4,703,751	3,458,618
Provisions	9	1,592,084	1,703,366
Creditors	8	2,311,519	558,151
Consumer deposits	7	-	491,912
Current portion of long-term loans	4	800,148	705,189
Total Funds and Liabilities		<u>35,511,845</u>	<u>16,158,864</u>
ASSETS			
NON-CURRENT ASSETS		19,281,221	6,681,639
Property, Plant and Equipment	3	19,281,221	6,681,639
CURRENT ASSETS		16,230,624	9,477,225
Short-term investments	5	3,994,475	807,884
Consumer debtors	6	7,131,720	5,889,679
Value Added Tax (VAT)	14	3,442,409	2,322,643
Cash and cash equivalents	19	1,662,020	457,019
Total Assets		<u>35,511,845</u>	<u>16,158,864</u>

**STATEMENT OF FINANCIAL PERFORMANCE
AS AT 30 JUNE 2009**

2008 Actual income R	2008 Actual expenditure R	2008 Surplus / (Deficit) R		2009 Actual income R	2009 Actual expenditure R	2009 Surplus / (Deficit) R	2009 Budget Surplus / (Deficit) R
25,810,975	23,557,952	2,253,023	RATES AND GENERAL SERVICES	35,269,821	26,520,764	8,749,056	6,365,879
22,707,414	21,389,749	1,317,665	Rates	33,728,377	24,281,461	9,446,916	3,816,692
55,603	1,181,395	(1,125,792)	Subsidised Services	256,394	1,370,336	(1,113,943)	189,755
3,047,958	986,808	2,061,150	Economic Services	1,285,050	868,967	416,083	2,359,432
1,296,862	2,899,221	(1,602,359)	TRADING SERVICES	3,763,351	8,303,883	(4,540,532)	836,573
<u>27,107,837</u>	<u>26,457,173</u>	650,664	TOTAL	<u>39,033,172</u>	<u>34,824,647</u>	4,208,525	<u>7,202,452</u>
		300,000	Appropriations for the year			1,262,943	
		<u>950,664</u>	Net surplus/(deficit) for the year			<u>5,471,467</u>	
		(3,113,620)	Accumulated surplus / (deficit) at the beginning of the year			(2,162,956)	
		-	Prior year adjustment			-	
		<u>(2,162,956)</u>	ACCUMULATED SURPLUS/ DEFICIT AT THE END OF THE YEAR			<u>3,308,511</u>	

(Refer to appendices D and E for more information)

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	2009 R
CASH RETAINED FROM OPERATING ACTIVITIES		
		6,046,512
Cash utilised by operations	15	11,835,000
Investment Income		187,474
(Increase)/Decrease in Working Capital	16	(5,818,774)
		6,203,699
Less: External Interest paid		(180,993)
Cash utilised by operations		6,022,706
Proceeds on disposal of fixed assets		
Other contributions from the Public and State		23,806
Capital contributions from the Public and State		
CASH UTILISED IN INVESTING ACTIVITIES:		
Investments in Fixed Assets	App.C	43,800
Housing development for low income group		
NET CASH FLOW		<u>6,090,312</u>
CASH EFFECTS OF FINANCING ACTIVITIES		
(Decrease)/Increase in Long-term Loans	17	(974,536)
Decrease/(Increase) in Cash investments	18	(3,910,775)
Decrease/(Increase) in Cash	19	(1,205,001)
NET CASH GENERATED/(UTILISED)		<u>(6,090,312)</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2009

	2009 R	2008 R
1 STATUTORY FUNDS		
Consolidated Capital Development Fund	1,490,105	1,490,105
Public Improvement Funds	15,451,894	726,400
(See Appendix A for more details)	<u>16,941,999</u>	<u>2,216,505</u>
2 RESERVES		
Infrastructure Grant	-	457,458
IDP Grant	26,007	33,984
Management Assistance Programme	1,090,288	958,386
Municipal Finance Management Grant	-	886,627
Lollipops Grant (Department of Transport)	-	(12,795)
Action Plan	-	(98,040)
GIS Grant Fund	-	223,905
MFMA Implementation	105,127	100,000
Interdepartmental Monitoring	-	(13,338)
LUMS Grant	-	163,787
Municipal Infrastructure Grant	390,266	(5,273,160)
Housing Grant	110,100	297,259
Municipal Systems Improvement Grant	79,616	1,400,184
Asset Register	(0)	(14,432)
Umsobomvu Grant	-	105,508
PMS Grant Fund	-	(154,372)
SCP Grant	-	10,060
Public Participation Grant	22,017	100,000
Corridor Development	2,367,999	333,859
Human Resources Development Grant	-	29,300
Library Assistant Grant	-	173,902
Basic Bookkeeping Grant	-	16,950
Multipurpose Community Centres	500,000	500,000
Synergistic Partnership Programme	344,610	499,250
CDW Fund	-	53,759
Unidentified Grants	0	11,138,992
Grader and Tipper truck grant	-	212,139
Valuation Roll (Property Rates Act)	-	170,000
Cybercadet	152,263	-
Capacity Building	199,133	-
Youth Fund	250,000	-
Anti-corruption Strategy	39,085	-
Financial System grant	700,000	-
Qhudeneni Link Road	-	(4,903,044)
	<u>6,376,511</u>	<u>7,396,128</u>

3 FIXED ASSETS

Fixed assets at the beginning of the year	34,446,640	34,046,640
Revaluation	37,135,348	
Capital outlay	43,800	400,000
Less : Assets written off, transferred or disposed of during the year	-	-
Total fixed assets	71,625,788	34,446,640
Less : Loans redeemed and other capital receipts	(52,344,567)	(27,765,001)
Net fixed assets	19,281,221	6,681,639
(Refer to appendix B+C for more detail)		

4 LONG TERM LOAN

Interest Bearing Borrowing: DBSA (Initial loan: R 5 000 000)	3,386,630	4,098,331
Interest Bearing Borrowing: DBSA (Initial loan: R 3 500 000)	1,594,591	1,848,480
Interest Bearing Borrowing: ABSA	-	8,946
	4,981,221	5,955,757
	-	-
Less : Short term portion transferred to current assets	(800,148)	(705,189)
	(800,148)	(705,189)
	4,181,073	5,250,568

5 INVESTMENTS

Unlisted Short term investments

ABSA Bank: Call Account - 916 8827 648	1,457	1,415
ABSA Bank: Fixed Deposit - 206 141 96	-	724,227
ABSA Bank: Call Account - 914 2845 014	3,993,018	82,242
	3,994,475	807,884
Less : Short term portion transferred to current assets	-	-
	3,994,475	807,884

Management valuation of unlisted deposits

-

The Investment previously disclosed as a Fixed deposit with ABSA - 20614196 was written off during the year as there is no evidence of its existence.

6 DEBTORS

Current debtors : Consumer and others	11,883,561	8,475,279
Cash Advances	-	6,428
SARS: Value Added Tax	3,442,409	-
Sundry	248,159	12,192
	15,574,129	8,493,899
Less:	(5,000,000)	(2,604,220)
Unallocated income from customers	-	(1,658,612)
Provision for bad debts	(5,000,000)	(945,608)
	(3,442,409)	-
Less: SARS VAT Debtor (Refer Note 14)	7,131,720	5,889,679

7 CONSUMER DEPOSITS

Electricity Services	-	491,912
Deposits were transferred to Appropriation account.		

8 CREDITORS

Trade creditors	2,311,519	558,151
Salary Suspense	-	-
	<u>2,311,519</u>	<u>558,151</u>

9 PROVISIONS

Leave	1,315,936	1,075,909
Bonus	276,148	627,457
	<u>1,592,084</u>	<u>1,703,366</u>

10 COUNCILOR REMUNERATION**Mayor's allowance**

Basic Salary	200,667	259,109
Travel Allowance	-	-
Cell phone Allowance	-	-
Personal Facility Usage Allowance	-	-
Total Allowances	<u>200,667</u>	<u>259,109</u>

Deputy Mayor's allowance

Basic Salary	130,817	168,660
Travel Allowance	-	-
Cell phone Allowance	-	-
Personal Facility Usage Allowance	-	-
Total Allowances	<u>130,817</u>	<u>168,660</u>

Speaker's allowance

Basic Salary	139,806	168,660
Travel Allowance	40,006	-
Cell phone Allowance	7,431	-
Medical Aid	-	-
Personal Facility Usage Allowance	-	-
Total Allowances	<u>187,242</u>	<u>168,660</u>

Exco Member's allowance (4 councillors)

Basic Salary	658,510	634,456
Travel Allowance	-	-
Cell phone Allowance	-	-
Personal Facility Usage Allowance	-	-
Total Allowances	<u>658,510</u>	<u>634,456</u>

Other councillors' Allowances (23 Councillors)

Basic Salary	2,126,183	2,672,547
Travel Allowance	-	-
Cell phone Allowance	207,188	-
Personal Facility Usage Allowance	3,360	-
Total Allowances	<u>2,336,731</u>	<u>2,672,547</u>

Total Councillor allowances

<u>3,513,968</u>	<u>3,903,432</u>
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These allowances are at the full upper-limit as set by the Minister of Provincial and Local Government Department in the Government Notice No. R1477 dated 21 December 2008 and the subsequent approval by the MEC of Traditional and Local Government Affairs in KwaZulu-Natal.

11 AUDITORS REMUNERATION

Audit fees	345,452	123,678
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12 FINANCE TRANSACTIONS

Total external interest earned or paid

Capital charges debited to operating account	180,993	417,779
Redemption : External	800,148	-
	981,141	417,779

13 APPROPRIATIONS

Appropriation account

Accumulated surplus at the beginning of the year	(2,162,956)	(3,063,620)
Operating surplus / (deficit) for the year	4,208,525	600,665
Appropriations for the year	1,262,943	300,000
- Operating transactions	1,262,943	-
-Prior Adjustment	-	300,000
Accumulated surplus / (deficit) at the end of the year	3,308,511	(2,162,955)

Appropriations for the year

Provision for Bad Debts	4,054,392	-
Investments written off	724,227	
Debtors reversed	18,620	
Prior year expenses	1,000	
Grants appropriated	(3,932,410)	
Stale cheques written back	(14,804)	
Deposits appropriated	(491,912)	
Creditors unsubstantiated in 2008	(558,151)	
Bonus overprovided 2008	(351,309)	
Cash appropriated ex 2008	(798,426)	
VAT correction	(665,271)	
Bank account duplicated	1,415	-
Prior year redemption charges	749,687	
	-	
	(1,262,943)	-

14 VALUE ADDED TAX (VAT)

Input VAT declared	3,613,564	2,331,643
Output VAT Declared	(449,307)	-
Add: Input VAT in Creditors accrual	278,152	
	<u>3,442,409</u>	<u>2,331,643</u>

15 CASH GENERATED BY OPERATIONS

Surplus/(Deficit) for the year	4,208,525
Previous years operating transactions	1,262,943
Appropriations charged against income:	4,329,167
Capital Development Fund	
Provisions and Reserves	4,309,173
Fixed Assets	19,994
Capital Charges	981,141
Interest Paid	
- Internal Funds	
- External Loans	180,993
Redemption	
- Internal Advances	
- External Loans	800,148
Internal Transfers and corrections	(2,106,475)
Internal Interest Transferred to operating Account	187,474
Non-Operating Income	
Statutory Funds	425,494
Provisions & Reserves	22,768,388
Non-Operating Expenditure	
Funds, Reserves & Provisions	(20,221,656)
	<u>11,835,000</u>

16 (INCREASE)/DECREASE IN WORKING CAPITAL

(Increase)/Decrease in Inventory	-
(Increase)/Decrease in Current Debtors	(7,080,230)
Decrease/(Increase) in Long Term Debtors	-
Increase/(Decrease) in Creditors	1,753,368
Increase/(Decrease) in consumer Deposits	(491,912)
	<u>(5,818,774)</u>

17 INCREASE/(DECREASE) IN LONG-TERM LOANS (EXTERNAL)

Loans Raised	-
Loans Repaid	(974,536)
	<u>(974,536)</u>

18 (INCREASE)/DECREASE IN EXTERNAL CASH INVESTMENTS

Investments Made	4,635,002
Investments Realised (written off)	724,227
	<u>(3,910,775)</u>

19 (INCREASE)/DECREASE IN CASH ON HAND

Cash beginning of the year	457,019
Cash and Cash equivalents at end of the year	1,662,020
	<u>(1,205,001)</u>

20 RETIREMENT BENEFITS

The staff members are the members of Natal Joint Municipal Pension Fund.
The other staff that were inherited from the government are the members of the Government Employees Pension Fund (GEPF)

The councillors are members of Municipal Councillor Pension Fund (MCPF).

The retirement plan is subject to the Pension Fund Act 1956 with pensions being calculated on the final pensionable remuneration paid. Current contributions are charged against operating income on the basis of current service costs.

Full actuarial valuation are performed at least every three years. The latest independent valuation of the funds, which indicated that the funds were in a sound financial position, was undertaken on 31 March 2007.

21 DISCLOSURE OF REMUNERATION FOR SENIOR OFFICIALS

Accounting Officer

Basic Salary	675,641	629,675
Performance Bonus	84,455	-
Total cost of employment	760,096	629,675

Head: Budget and Treasury Office

Basic Salary	497,580	499,740
Performance Bonus	62,197	-
Total cost of employment	559,777	499,740

Director: Technical Services

Basic Salary	499,740	512,456
Performance Bonus	62,467	-
Total cost of employment	562,207	512,456

Director: Local Economic Development; Housing and Planning

Basic Salary	124,935	-
Performance Bonus	-	-
Total cost of employment	124,935	-

Director: Corporate Services

Basic Salary	536,221	499,740
Performance Bonus	67,027	-
Total cost of employment	603,248	499,740

Total cost for senior management

	2,610,263	2,141,611
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22 DISCLOSURE IN TERMS OF SECTION 125 OF MFMA

22.1 Contributions to organised local government

KwaNaloga Contributions	-	-
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22.2 Details of Municipal Accounts

Primary bank Account

Account no.:	40-5356-2762	
Type of account:	Cheque Account	
Name of bank:	ABSA	
Opening balance	404,348	-
Closing balance	1,613,583	

Call Account

Account no.:	91-4284-5014	
Type of account:	Call account	
Name of bank:	ABSA	
Opening balance	82,242	
Closing balance	3,993,018	

Bank account

Bank:	ABSA	
Account No.:	40-6181-7353	
Account Type:	Current account	
Opening Balance	51,254	
Closing Balance.	48,436	

CALL ACCOUNT

Bank:	ABSA	
Account No.:	91- 6882-7648	
Account Type:	Fixed Deposit	
Opening Balance	1,415	
Closing Balance.	1,457	

22.3 EMPLOYEE RELATED COSTS

Employee related costs - Salaries and Wages	14,115,907	
Employee related costs		
- Contributions for UIF, SALGBC	165,686	
- Contributions for pensions	1,079,862	
- Contributions for medical aids	294,443	
Travel, subsistence and other allowances	1,604,391	
Housing benefits and allowances	28,161	
Overtime payments	110,933	
Performance bonuses	1,347,103	
Less: Employee costs included in other expenses	-	-
Total Employee related costs	<u>18,746,486</u>	<u>-</u>

23 CONTINGENT LIABILITIES

There are no known contingent liabilities.

24 CAPITAL COMMITMENTS

Commitments in respect of capital expenditure:

- Approved and awarded	-	-
- Approved	-	-
	<u>-</u>	<u>-</u>

The expenditure will be financed as follows:

- Internal funds	-	-
- External funds	-	-
Grants	-	-
Loans	-	-
	<u>-</u>	<u>-</u>

APPENDIX B

EXTERNAL LOANS AND INTERNAL ADVANCES

		Balance at 30/06/2008 R	Received during the year R	Redeemed or written off during the year R	Balance at 30/06/2009 R
EXTERNAL LOANS					
DBSA	100524/2	4,098,331		711,701	3,386,630
	100524/3	1,848,480		253,889	1,594,591
Lease No. 60983220		8,946		8,946	-
					-
		5,955,757	-	974,536	4,981,221

		Balance at 30/06/2008 R	Received during the year R	Redeemed or written off during the year R	Balance at 30/06/2009 R
INTERNAL ADVANCES					
Capital Development Fund		-	-	-	-
Public Improvement Fund		-	-	-	-
		-	-	-	-

APPENDIX A

STATUTORY FUNDS, RESERVES, TRUST FUNDS AND PROVISIONS

	Balance at 30/06/2008 R	Contributions during the year R	Interest on investments R	Other income R	Operational expenditure during the year R	Capital expenditure during the year R	Balance at 30/06/2009 R
STATUTORY FUNDS							
Capital Development Fund	1,490,105	-	-	-	-	-	1,490,105
- Rate and General Services	1,490,105	-	-	-	-	-	1,490,105
- Electricity	-	-	-	-	-	-	-
Public Improvement Fund	726,400	-	-	14,725,494	-	-	15,451,894
	2,216,505	-	-	14,725,494	-	-	16,941,999
RESERVES							
Infrastructure Grant	457,458	(457,458)	-	-	-	-	-
IDP Grant	33,984	13,135	-	-	21,112	-	26,007
Management Assistance Programme	958,386	217,166	-	-	85,264	-	1,090,288
Municipal Finance Management Grant	886,627	(827,192)	-	500,000	559,435	-	-
Lollipop Grant (Department of Transport)	(12,795)	12,795	-	-	-	-	-
Action Plan	(98,040)	98,040	-	-	-	-	-
GIS Grant Fund	223,905	(223,905)	-	-	-	-	-
MFMA Implementation	100,000	5,127	-	-	-	-	105,127
Interdepartmental Monitoring	(13,338)	13,338	-	-	-	-	-
LUMS Grant	163,787	(165,685)	-	1,898	-	-	-
Municipal Infrastructure Grant	(5,273,160)	5,273,160	-	16,655,600	16,265,334	-	390,266
Housing Grant	297,259	(297,259)	-	562,850	452,750	-	110,100
Municipal Systems Improvement Grant	1,400,184	(1,145,665)	-	735,000	886,097	23,806	79,616
Asset Register	(14,432)	14,432	-	-	-	-	(0)
Umsobomvu Grant	105,508	(105,508)	-	-	-	-	-
PMS Grant Fund	(154,372)	154,372	-	-	-	-	-
SCP Grant	10,060	(10,060)	-	23,040	23,040	-	-
Public Participation Grant	100,000	7,095	-	-	85,078	-	22,017
Corridor Development	333,859	(860)	-	2,160,000	125,000	-	2,367,999
Human Resources Development Grant	29,300	(29,300)	-	-	-	-	-
Library Assistant Grant	173,902	(173,902)	-	-	-	-	-
Basic Bookkeeping Grant	16,950	(16,950)	-	-	-	-	-
Multipurpose Community Centres	500,000	-	-	-	-	-	500,000
Synergistic Partnership Programme	499,250	(480)	-	-	154,160	-	344,610
CDW Fund	53,759	(53,759)	-	-	-	-	-
Unidentified Grants	11,138,992	(11,138,992)	-	-	-	-	0
Grader and Tipper truck grant	212,139	(212,139)	-	-	-	-	-
Valuation Roll (Property Rates Act)	170,000	(170,000)	-	1,000,000	1,000,000	-	-
Cybercadet	-	146,780	-	180,000	174,517	-	152,263
Capacity Building	-	199,133	-	-	-	-	199,133
Youth Fund	-	-	-	250,000	-	-	250,000
Anti-corruption Strategy	-	39,085	-	-	-	-	39,085
Financial System grant	-	-	-	700,000	-	-	700,000
Qhuden Link Road	(4,903,044)	4,903,044	-	-	-	-	-
	7,396,128	(3,932,412)	-	22,768,388	19,831,787	23,806	6,376,511
PROVISIONS							
Leave	1,075,909	254,781	-	-	14,754	-	1,315,936
Bonus	627,457	-	-	-	351,309	-	276,148
Provision for Bad debts	945,608	4,054,392	-	-	-	-	5,000,000
	2,648,974	4,309,173	-	-	366,063	-	6,592,084

APPENDIX C
ANALYSIS OF FIXED ASSETS

Expended 2008 R		Budget 2009 R	Balance at 30/06/2008 R	Revaluation	Expenditure 2009 R	Written off, transferred, redeemed or disposed of during the year R	Balance at 30/06/2009 R
706,341	RATES AND GENERAL	11,905,000	26,796,199	22,829,011	43,800	-	49,669,010
706,341	Rates and General Services	11,905,000	23,708,309	22,829,011	43,800	-	46,581,120
-	Land and Buildings	-	10,456,340	2,894,985	-	-	13,351,325
-	Roads and Streets	11,170,000	8,105,824	14,939,703	-	-	23,045,527
-	Parks and Recreation	-	494,571	1,004,248	-	-	1,498,819
-	Cemetery	-	-	1,092,182	-	-	1,092,182
-	Fire Services	-	15,150	-	-	-	15,150
706,341	Motor Vehicles	-	3,017,558	301,883	-	-	3,319,441
-	Major Plant	-	263,168	(263,168)	-	-	-
-	Plant and Equipment	-	256,319	2,306,835	-	-	2,563,154
-	Small Tools	-	4,747	846	-	-	5,593
-	Furniture and Fittings	735,000	834,701	(258,256)	19,994	-	596,439
-	Medical Equipment	-	-	2,600	-	-	2,600
-	Office Equipment	-	-	578,098	-	-	578,098
-	Computers	-	259,931	229,055	23,806	-	512,792
-	Subsidized Services	-	1,287,424	-	-	-	1,287,424
-	Market Stalls	-	1,287,424	-	-	-	1,287,424
-	Economical Services	-	1,800,466	-	-	-	1,800,466
-	Refuse Site	-	1,800,466	-	-	-	1,800,466
-	TRADING SERVICES	-	7,650,441	6,337	-	-	7,656,778
-	Electricity Services	-	7,650,441	6,337	-	-	7,656,778
-	PUBLIC IMPROVEMENT FUND	-	-	14,300,000	-	-	14,300,000
706,341	TOTAL FIXED ASSETS	11,905,000	34,446,640	37,135,348	43,800	-	71,625,788
706,341	LESS : LOANS REDEEMED AND OTHER CAPITAL RECEIPTS	11,905,000	27,765,001	23,561,231	1,018,335	-	52,344,567
-	Loans redeemed and advances paid	-	2,045,448	487,917	974,535	-	3,507,900
706,341	Contributions ex operating income	735,000	711,980	1,430,084	19,994	-	2,162,058
-	Revaluation Reserve	-	-	1,952,150	-	-	1,952,150
-	Grants and Subsidies	11,170,000	25,007,573	19,691,080	23,806	-	44,722,459
-	NET FIXED ASSETS	-	6,681,639	13,574,117	(974,535)	-	19,281,221

APPENDIX D

ANALYSIS OF OPERATING INCOME AND EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2009

2008 R		2009 Actual R	2009 Budget R
	INCOME		
	Government and Provincial Grants		
22,913,089	and subsidies	29,481,995	32,328,424
22,913,089	- Equitable Share	29,307,478	28,124,000
-	- National Government	-	2,154,424
-	- Provincial Government	174,517	2,050,000
-		-	-
4,594,749	Operating income	9,551,177	4,653,702
304,879	- Assessment rates	1,397,781	1,440,900
1,296,862	- Sale of Electricity	3,721,990	1,752,285
1,307,392	-Other Service Charges	1,285,050	1,300,000
1,446,257	-Other Income	2,958,882	160,517
239,359	-Interest earned	187,474	-
27,507,838		39,033,172	36,982,126
	EXPENDITURE		
17,059,409	Salaries, Wages and Allowances	18,746,485	22,860,449
2,512,137	Electricity Bulk Purchases	5,967,045	-
-	Council Remuneration	-	-
5,877,615	General Expenditure	8,497,505	12,357,130
240,236	Repairs and Maintenance	357,695	412,908
417,779	Capital charges	981,141	8,000
400,000	Contributions to Capital Outlay	19,994	1,422,663
-	Contributions to provisions	254,781	2,085,000
-	Contributions to reserves	-	-
26,507,176	Gross expenditure	34,824,647	39,146,150
26,507,176	Net expenditure	34,824,647	39,146,150
1,000,662	Surplus/(Deficit)	4,208,525	-2,164,024

APPENDIX E
DETAILED INCOME STATEMENT FOR THE YEAR
ENDED 30 JUNE 2009

2008 Actual income R	2008 Actual expenditure R	2008 Surplus / (Deficit) R		2009 Actual income R	2009 Actual expenditure R	2009 Surplus / (Deficit) R	2009 Budget Surplus / (Deficit) R
25,810,975	23,557,952	2,253,023	RATE AND GENERAL SERVICES	35,269,821	26,520,764	8,749,056	6,365,879
22,707,414	21,389,749	1,317,665	Community Services	33,728,377	24,281,461	9,446,916	3,816,692
3,462,589	4,922,063	(1,459,474)	Council General Expenditure	-	6,587,118	(6,587,118)	-1,301,373
2,701,668	708,450	1,993,218	Municipal Manager	91,595	2,216,680	(2,125,085)	2,690,300
8,819,218	4,269,627	4,549,591	Financial Services	33,555,012	4,801,627	28,753,385	3,976,035
-	407,397	(407,397)	Public Conveniences	-	397,449	(397,449)	877,451
9,932	550,553	(540,621)	Housing and Building Inspections	15,195	126,675	(111,480)	-247,460
-	2,390,917	(2,390,917)	Roads and storm water	-	1,092,209	(1,092,209)	1,324,895
-	691,028	(691,028)	Street Cleaning	-	128,195	(128,195)	-938,759
4,114,007	555,858	3,558,149	Technical Services	66,575	1,947,575	(1,881,000)	809,346
3,600,000	6,893,856	(3,293,856)	Corporate Services	-	6,983,933	(6,983,933)	-3,373,743
55,603	1,181,395	(1,125,792)	SUBSIDISED SERVICES	256,394	1,370,336	-1,113,943	189,755
-	338,540	(338,540)	Facilities/Libraries	174,517	560,531	(386,014)	-231,572
14,667	623,731	(609,064)	Cemetery	23,308	579,872	(556,564)	-622,984
40,936	219,124	(178,188)	Community Halls	58,569	229,933	(171,364)	189,755
3,047,958	986,808	2,061,150	ECONOMIC SERVICES	1,285,050	868,967	416,083	2,359,432
3,047,958	986,808	2,061,150	Refuse	1,285,050	868,967	416,083	2,359,432
1,296,862	2,899,221	(1,602,359)	TRADING SERVICES	3,763,351	8,303,883	(4,540,532)	836,573
1,296,862	2,899,221	(1,602,359)	Electricity	3,763,351	8,303,883	(4,540,532)	836,573
27,107,837	26,457,173	650,664	TOTAL	39,033,172	34,824,647	4,208,525	7,202,452
		300,000	Appropriations for the year			1,262,943	
		950,664	Net surplus / (deficit) for the year			5,471,467	
			Accumulated surplus / (deficit) at the beginning of the year			(2,162,956)	
			ACCUMULATED SURPLUS (DEFICIT) AT THE END OF THE YEAR			3,308,511	

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF NQUTHU MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Nquthu Municipality which comprise the balance sheet as at 30 June 2009, and the income statement and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages XX to XX.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the entity specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996, read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. Disclosed in note 3 to the financial statements is property, plant and equipment to the value of R19,28 million. Our audit indicated the following material deficiencies in the fixed asset management systems :-
 - Fixed assets disclosed in the fixed asset register differ from the amounts reflected on the supporting documentation by R2.1 million.
 - Assets to the value of R25, 84 million were not supported by any documentation.
 - Assets valued at R1, 1 million recorded on the fixed asset register could not be physically located.
 - 9 assets were identified which could not be traced to the asset register.

- Capital projects of R4, 88 million completed during the year were not capitalised to assets.
- Assets of R2, 43 million that were not in working condition were not written off.

The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, completeness, valuation and the rights of assets of R19,28 million (2008: R6,68 million)

5. Furthermore the external loans of R4, 98 million recorded in appendix B does not agree to the net fixed assets of R19, 28 million recorded in appendix C. In the absence of an accurate and complete asset register, the completeness and valuation of the funding entries and balances recorded under Loans Redeemed and Other Capital Receipts of R52,34 million (2008: R27,77 million) could not be substantiated.

Revenue

6. The municipality did not have a proper billing system in place. The following material deficiencies were identified from rates assessments income, sale of electricity and other service charges:-

- The amounts recorded in the financial statements did not agree to the manual billing schedule. A total difference of R1, 3 million was noted.
- Twenty four properties were identified where consumers were billed for rates and refuse twice.
- Properties were not correctly classified between domestic and commercial properties resulting in incorrect rates and charges being applied.
- Incorrect electricity billing of R596 000 was identified which resulted in income from the sale of electricity being overstated by this amount.
- Receipts of R333 956 relating to prior year electricity charges were incorrectly accounted for as income in the year under review.

The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to obtain sufficient appropriate audit evidence to confirm the accuracy and completeness of income of R6, 40 million (2008: R2, 91 million).

Receivables

7. An effective debtors billing system was not maintained and the following weaknesses identified indicate material deficiencies in the management of debtors at the municipality:-

- Documentation was not made available to support the opening debtors' balance of R5, 89 million.
- The debtors' ledger, debtors' reconciliations and debtors' age analysis were not made available for inspection during the audit. Although a manual billing schedule was provided, significant weaknesses were identified with this schedule. (Refer to paragraph 6 above).

- In the absence of the debtor's age analysis and proper records or documentation supporting the opening balance of R5,8 million I was unable to carry out all procedures necessary to assess the adequacy of the provision for bad debts of R5 million.

The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to obtain sufficient appropriate evidence to confirm the existence, valuation of and the municipality's rights to the debtors balance of R7,13 million (2008: R5,89 million).

Employee costs

8. Salaries, wages and allowances disclosed in the annual financial statements differ from the amount recorded on the payroll system by R665 400. This was mainly due to an adjustment of R671 133 incorrectly processed to the general ledger. As a result employee costs are overstated and payables are understated by R671 133.
9. The prior year bonus payment of R688 549 was incorrectly processed to the salary control account. As a result accumulated surplus is overstated and the salary control account (payables) for the current year is overstated by R688 549.
10. A provision was not made for bonuses due and payable to the employees of the municipality. As a result employee costs and the accumulated surplus are understated by R320 321 and provisions are understated by this amount.

Consumer deposits

11. Disclosed in note 7 to the financial statements are consumer deposits with a nil value. I could not obtain sufficient appropriate audit evidence to substantiate the balance of R491 900 written off during the current year due to the fact that as reported in the prior year, a consumer deposit register detailing the properties and the consumers in respect of which deposits are held was not maintained. Consequently I was unable to confirm by alternative procedures the valuation, existence and completeness of the consumer deposit liability that should be disclosed in the financial statements.

Unauthorised expenditure

12. The reserves of R6,38 million, representing unspent conditional grants, are only supported by cash and cash equivalent balances of R5,66 million resulting in unauthorised expenditure of R 720 000. The unauthorized expenditure has not been disclosed in accordance with section 125(2)(d) of the MFMA.

Irregular expenditure

13. As reported in the prior year the value of private use of the official mayoral vehicle for the current year has not been recovered from the mayor. The non recovery of such expenditure amounts to irregular expenditure in terms of section 167(2) of the MFMA. In the absence of accurate information on the mileages and actual maintenance costs of this vehicle, I am unable to quantify the completeness and accuracy of irregular expenditure.

Distribution losses: Electricity

14. The municipality does not have adequate processes to identify and manage material losses arising from the distribution of electricity and I could therefore not determine the extent of the loss at year end. As a result the municipality did not disclose the distribution losses in the financial statements in accordance with section 125(2)(d) of the MFMA.

Capital Commitments

15. Capital commitments identified during the testing of capital projects have not been disclosed in the financial statements. In the absence of a proper contracts register the completeness of the obligations for the capital commitments could not be ascertained.

Corresponding figures

16. In the prior period I issued a disclaimer of audit opinion on the financial statements. The matters that gave rise to the disclaimer of the audit opinion remain substantially unresolved; as a result, these misstatements have affected the fair presentation of the amounts disclosed in the current period. For matters that have been resolved, the related comparative amounts have not been adjusted. As a consequence the affected comparative amounts and opening balances for property, plant and equipment, debtors, revenue, expenditure, cash and cash equivalents, value added tax, government grants, creditors, consumer deposits and investments were also either misstated or could not be audited. The cash flow statement was not prepared for the prior year.

Disclaimer of opinion

17. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matters

I draw attention to the following matters on which I do not express a disclaimer of opinion:

Basis of Accounting

18. The municipality's policy is to prepare financial statements on the entity specific basis of accounting, as set out in accounting policy note 1.

Going concern

19. The 2008/2009 financial statements does not draw attention to doubts concerning the municipality's ability to discharge all its obligations in the normal course of business, in the foreseeable future. The doubts arise in view of the following:-

- Fund and reserve balances are not supported by cash and investments.
- The fixed assets of the municipality are not adequately insured.
- For the period under review, consumers were not billed on a monthly basis and this resulted in minimal recoveries of amounts due to the municipality thereby impacting negatively on the municipality's cash flows.
- The doubtful debts have not been fully provided for.

These conditions indicate the existence of an uncertainty which casts doubt on the municipality's ability to continue as a going concern.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Material inconsistencies in information included in the annual report

20. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Non Compliance with applicable legislation

Municipal Finance Management Act

21. The municipality had not prepared and tabled an annual report with Council for the 2007/08 financial year as required by Section 121(1) and 127(2) of the MFMA.

22. Actual revenue and expenditure per vote for the preceding financial year is not reflected in the annual budget as required by section 17(1)(d)(ii) of the MFMA.

23. The mayor did not table the time schedule at least ten months before the start of the budget year outlining the key deadlines for preparation, tabling and approval of the budget as required by section 21(1)(b) of the MFMA.

24. The capital budget is incomplete as it does not reflect the projected capital expenditure for the next two financial years as required by section 16(3) of the MFMA.

25. Evidence that the budget was submitted to National Treasury in accordance with section 22(b)(i) of the MFMA could not be obtained.

26. The municipality did not calculate its revenue on a monthly basis, nor did it have an, accounting and information system for the management of revenue and did not reconcile all revenue received at least on a weekly basis as required by section 64(2)(b), (e) and (h) of the MFMA.

27. The municipality did not ensure the participation of only pre-qualified persons for the bidding process, as not all suppliers were registered on the approved supplier database as required in terms of section 112(1)(f) of the MFMA.
28. The accounting officer of the municipality did not take all reasonable steps to ensure that contracts are properly enforced as required by section 116 (2)(a) of the MFMA, as not all contracts awarded, were signed by the accounting officer.

Municipal Systems Act

29. The staff establishment was not approved and the municipality did not establish a process or mechanism to evaluate the staff establishment on a regular basis as required by section 66 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

Local Authorities Ordinance

30. The municipality did not obtain exemption for the contribution to the capital development fund of not less than 3% of the annual revenue accruing to the rates and general service as required by section 103(9)(b)(i) of the Local Authorities Ordinance, 1974 (No.25 of 1974).

Governance framework

31. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

32. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for disclaimer of opinion	CE	RA	CA	IC	M
4, 5.	Property, plant and equipment			5,6		1
6.	Revenue	5		6	1	
7.	Receivables	5		6	1	
8,9,10.	Employee costs			3,5,6	1	1
11.	Consumer deposits			6		
12.	Unauthorised expenditure			5		
13.	Irregular expenditure			6		1
15.	Capital commitments			5		

14.	Distribution losses			5		
16.	Corresponding figures			5		

33. The accounting officer has not established an adequate system of internal controls; as a result significant deficiencies relating to asset management, completeness and accuracy of revenue, the existence and valuation of debtors and the accuracy and completeness of employee costs, consumers deposits, unauthorised and irregular expenditure as well as material losses and corresponding figures were not timeously addressed.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the	1

effectiveness of internal control over financial reporting.	
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

34. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		<input type="checkbox"/>
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		<input type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		<input type="checkbox"/>
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	<input type="checkbox"/>	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. 		<input type="checkbox"/>
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 		<input type="checkbox"/>
7.	Internal audit		
	<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 		<input type="checkbox"/>
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		<input type="checkbox"/>
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		<input type="checkbox"/>

No.	Matter	Y	N
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		<input type="checkbox"/>
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.		<input type="checkbox"/>
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	<input type="checkbox"/>	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		<input type="checkbox"/>
14.	SCOPA resolutions have been substantially implemented.	<input type="checkbox"/>	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		<input type="checkbox"/>
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		<input type="checkbox"/>
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets [section 68 of the MFMA].		<input type="checkbox"/>
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		<input type="checkbox"/>

35. Governance policies and practices do not operate effectively and appropriately. The municipality has not substantially complied with the key governance responsibilities. Weaknesses with respect to the risk management, audit committee, internal audit preparation of annual report, quality of financial statements, performance information and performance management needs to be addressed to improve adherence to the governance framework.

Investigations

36. A follow up forensic investigation relating to previous senior officials is currently being conducted. This investigation was still in progress at 30 June 2009.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

37. I have reviewed the performance information as set out on pages XX to XX.

The accounting officer's responsibility for the performance information

38. In terms of section 121(3)(c) of the MFMA the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the MSA.

The Auditor-General's responsibility

39. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
40. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
41. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the review findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

Lack of implementation of a performance management system

42. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Reporting of performance information

43. The performance report prepared by the municipality did not comply with the requirements of section 46(1) of the MSA as the following information was not reflected:-
- a) The annual performance reports do not cover all development priorities and objectives.
 - b) The annual performance reports do not cover key performance indicators such as:
 - Access to Basic Services and Infrastructure
 - Social Development
 - Municipal Transformation and Institutional Development
 - Good Governance and Community Participation
 - c) The performance of each external service provider
 - d) The comparison of the prior year performance targets and the current year's actual.
 - e) Measures to be taken to improve performance.

Existence and functioning of a performance audit committee

44. The municipality did not appoint and budget for a performance audit committee, nor was the audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

45. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee.

Usefulness and reliability of reported performance information

46. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:
- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
 - Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
 - Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit finding relates to the above criteria:

Inconsistently reported performance information

47. The consistency between the development priorities and objectives in the IDP and the budget could not be ascertained, as the budget did not contain development priorities and objectives.

Performance information not received in time

48. An assessment could not be performed on the reliability of the reported performance information for Technical Services division, since the information was not received in time for audit purposes.

APPRECIATION

49. The assistance rendered by the staff of the Nquthu Municipality during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL DRAFT